



Department of the Treasury
Internal Revenue Service
Southeast Key District (EP/EO)

Date: APR 26 1999

Employer Identification Number:

Person to Contact:

Telephone Number:

In Reply Refer To:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code and have determined that you do not qualify for exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

The information submitted indicates that you were incorporated in [REDACTED]. Your charter states that your purposes are to "advance the interest of Obedience Training pure bred dogs; to hold and encourage participation in Obedience Trials and Exhibitions; and to foster and maintain sociability and sportsmanship among Club members."

The organization receives income from membership dues, class fees, and investment income. Expenses are incurred for occupancy, depreciation, and miscellaneous administrative and program expenses.

Your application indicates that, in accordance with your articles of incorporation, your organization holds classes in obedience training and holds obedience trials under AKC rules, both for members and the general public. General club meetings are held at least six (6) times per year.

Since [REDACTED], the organization has held over 270 7-week training sessions. According to your laws, the organization shall conduct Beginners Classes as many times per year as, in the opinion of the Board of Directors, enrollment is sufficient to support it.

The organization charges the following fees: New membership \$ [REDACTED] Non-training membership \$ [REDACTED] Membership renewal \$ [REDACTED] Probationary membership (7 weeks) \$ [REDACTED] Beginners class \$ [REDACTED] Puppy class \$ [REDACTED] Upgrade from puppy to beginner \$ [REDACTED]

The club seeks public patronage of its facilities or activities by advertisement.

Non-members, other than guests, are permitted to use the club facilities or participate in or attend functions or activities conducted by the organization.

The organization receives % of its gross receipts from non-members and % of gross receipts from investment income.

Section 501(c)(7) of the Internal Revenue Code exempts from taxation, clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Federal Income Tax Regulations states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club facilities.

Section 1.501(c)(7)-1(b) of the Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation or social purposes. However, an incidental sale of property will not derive a club of its exemption.

Senate Report 94-1313, 2nd Session, 1976-2 C.B. 597, 599 states that social clubs may receive up to 35% of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within the 35% limitation, no more than 15% of gross receipts may be derived from non-member use of club facilities and/or services.

In determining whether social clubs meet the 35-15 percent limitations, the Committee Reports state that gross receipts are defined for this purpose as those receipts from the traditional, normal, and usual activities of the club. Said Reports further provide that gross receipts include charges, admissions, membership fees, dues, assessments, investment income (such as dividends, rents, and similar receipts), and normal recurring capital gains on investments, but excluding initiation fees and capital contributions.

Based on the information submitted, we have determined that your organization is, and has been, engaging in business over a period of years on a recurrent year to year basis and is not organized and operated substantially for pleasure, recreation and other non-profitable purposes and is, therefore, not exempt under section 501(a) of the Code. Specifically, your organization advertises for patronage of the general public, receives income from non-members exceeding 15% of gross receipts, and conducts such activity on a regular basis.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Code. In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

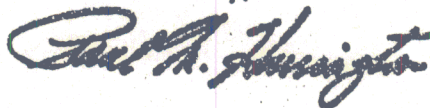
If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position.

If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

Appeals submitted which do not contain all documentation required by Publication 892 will be returned for completion.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,



Paul M. Harrington
District Director

Enclosure: Publication 892